

MINUTES

BOARD OF TRUSTEES OF THE PUBLIC EMPLOYEES' RETIREMENT FUND 143 West Market Street, Suite 500 Indianapolis, IN 46204

June 14, 2002

Trustees Present

Jonathan Birge, Chair
Richard Doermer, Vice Chair
Teresa Ghilarducci
Steven Miller
Nancy Turner

Others Present

Mike Gery, Executive Assistant to the Governor
Diana Hamilton, Special Liaison to the Governor for Public Finance
Richard Boggs, Burnley Associates
Stephanie Braming, William M. Mercer Investment Consulting
Micah Fannin, William M. Mercer Investment Consulting
Mary Beth Braitman, Ice Miller
Eric Swank, Ice Miller
Doug Todd, McCready & Keene, Inc.
Karen Franklin, National City Bank
E. William Butler, PERF Executive Director
Caroline Drum Bradley, PERF Internal Auditor
Diann Clift, PERF MIS Director
Joseph Duncan, PERF Investment Analyst
Patricia Gerrick, PERF Chief Investment Officer
Ed Gohmann, PERF Legal Counsel
Patrick Lane, PERF Communications Director
Doug Mills, PERF Chief Financial Officer
Jim Osborn, PERF Project Director
Kevin Scott, PERF Chief Benefits Officer
Lynda Duncan, Minute Writer

ITEMS MAILED TO THE BOARD PRIOR TO MEETING

- A. Agenda of June 14, 2002 Meeting
- B. Minutes:
 - ❑ May 10, 2002 Board of Trustees Meeting
 - ❑ April 12, 2002 Investment Committee Meeting
- C. Reports, Summaries, Memorandums and/or Letters Concerning:
 - ❑ Line-of-Duty Death Determination Documentation (Board members only)
 - ❑ Guaranteed Fund Rate
 - ❑ Draft FY03 Budget
 - ❑ Line-of-Duty Death Determination Documentation
 - ❑ Draft Audit and Budget Committee Charter
 - ❑ Internal Audit Charter
 - ❑ Year to Date Expenses Update

A quorum being present, the meeting was called to order.

1. MINUTES APPROVAL

MOTION duly made and carried to approve the Minutes of the May 10, 2002 meeting of the Board of Trustees.

Proposed by: Teresa Ghilarducci
Seconded by: Steven Miller
Votes: 5 for, 0 against, 0 abstentions

2. DISCLOSURES

Mr. Doermer – Bank One stock ownership.

3. EXECUTIVE DIRECTOR'S REPORT.

a. Line of Duty Death Determination.

MOTION duly made and carried to approve the award of the Line-of-Duty death benefit in the case of Mr. Thomas F. Carter, former Engineering Assistant I for the Seymour District Construction Department of INDOT who died as a result of a work accident on May 2, 2002.

Proposed by: Richard Doermer
Seconded by: Nancy Turner
Votes: 5 for, 0 against, 0 abstentions

- b. Guaranteed Fund Rate. Mr. Miller advised that the Investment Committee considered to change the guaranteed rate with an effective date of July 1, 2002 would not give participants sufficient time to decide on their options. The Committee had recognized the need to examine PERF's methodology for arriving at the guaranteed rate and had agreed to review this at the end of the current

calendar year, aiming to have a new system in place for establishing the guaranteed rate by March, 2003.

MOTION duly made and carried to set the guaranteed rate for the first quarter of FY02, beginning July 1, 2002, at 8.25% and for the remaining 9 months of the fiscal year to reduce the rate to 7.75%.

Proposed by: Steven Miller
Seconded by: Nancy Turner
Votes: 5 for, 0 against, 0 abstentions

c. Call Center. Mr. Cartwright, Call Center Manager, provided an update on the Call Center.

- The Call Center had not been established long enough to provide reliable data on its performance; however, this data is being collected and will be provided at subsequent Board meetings.
- The Call Center went “live” as scheduled on May 15, 2002. As part of the training process of the customer service representatives, all had successfully completed a final exam on general questions regarding PERF. It was anticipated that the overall reductions in call volume throughout PERF should provide increased operational efficiency.
- The call-queue size (number of slots allotted to the callers waiting on hold) had been increased because it had been noted that during the first two days of operation, approximately 21% of the callers were being routed to voice mail. The auto attendant had also been redesigned. Members calling in should now receive two prompts before being connected to a live operator. An internal forms processing procedure has been established whereby one temporary employee is primarily responsible for sending out forms.
- The ACD was installed according to schedule. All CSRs have fax software that permits them to send and receive faxes at their workstations. A TDD device for hearing impaired members has also been installed. The ACD software allows real-time performance to be measured. An email link has been incorporated in the web site to allow members to submit inquiries via email, to which designated Call Center staff respond.
- Initial feedback. Input from employees and members has indicated noticeable improvement in PERF’s telephone communications.
- Staffing. The Call Center employs five permanent staff members and four temporary employees. The hours of operation are from 08:00 a.m. to 5:00 p.m.

- The Board members were given a tour of the Call Center. Only 13% of the calls received are transferred, because most are being dealt with in the Call Center. Inquiries mainly concern retirements and refunds, with very few relating to investment options.
- Software enables the activities of each CSR to be monitored and this information will eventually be used to compile various reports.

4. 1977 POLICE OFFICERS' AND FIREFIGHTERS' FUND. Mr. Parker provided highlights of the Advisory Committee meeting held on April 22, 2002.

- The Advisory Committee approved a local Pension Board's determination of a duty-related disability concerning a firefighter who had suffered a cardiac arrest while fighting a fire. The statute requires that the Advisory Committee make such determinations on local Board duty-related determinations. Determination that such disabilities are duty-related means that the income received by the beneficiary from the local pension fund will be non-taxable.
- Deferred Retirement Option Plan (DROP) Seminars. Mr. Parker noted that PERF was in the process of a major commitment of its resources to a statewide DROP educational program. Three seminars have already been completed and six more seminars are planned. Mr. Parker noted that the presentations had been very well received. The presentation team consisted of Mr. Osborn, Mr. Gohmann, Mr. Swank, Mr. Todd and Mr. Parker.
- The issue of the pension status of retired 1977 Fund members who wish to be rehired was discussed.
- The Advisory Committee will meet again on August 19, 2002.

5. BENEFITS ADMINISTRATION. Mr. Scott noted that figures for April differed from other months because of a transition in the method of accumulating and reporting the information.

- New Member Records. Approximately 2,000 applications had been received in May 2002. The Benefits Department is currently able to reduce the backlog and keep current with the ability to process an average of 2,500 applications per month. This situation is attributed to the use of employees. Ms. Turner asked if this level of performance could be maintained without the temporaries. Mr. Scott noted that current staffing levels included six temporary employees, and that they continue to be required to maintain current performance levels.
- Refunds. This concerns employees that decide to leave PERF-covered positions and want to withdraw their ASA balances. They are not eligible to receive benefits. The normal number of new applications received per month is slightly less than 1,000. The current backlog is about 800. If staffing levels are maintained at current levels,

applications can be processed within 30 – 45 days. Ms. Ghilarducci asked how many refunds were rollovers and if this complicated PERF's processes. She asked if PERF kept a record of the percentage of members that opt to rollover their accounts. Mr. Scott advised that these details were available and would be provided. Mr. Ghilarducci asked for details to be provided on rollovers from a demographic perspective. Temporary help from another special project had been used to reduce the backlog from a high of 2,900 in January to 846 in February/March and this enabled PERF to absorb the huge influx of new applications received. In May, nearly 2,000 new refund applications had been received. This figure could be attributed to seasonal workers.

- Retirements. In May, more than double the norm for retirement applications was received. This also coincided with the implementation of SIRIS II. This resulted in a significant reduction in productivity, with only 116 applications being processed in the month and doubling the backlog. This meant that retirees would have to wait 90 – 100 days to receive their retirement benefits unless the 85% estimated benefit payments initiative could be implemented. He noted that a problem that had delayed implementation of the 85% benefits initiative had been identified and was being resolved.
- Analysis of Retirees Option Trends. A total of 2,900 members retired in FY01. Of this, 50% opted to take an annuity option. Of the other 50%, half had opted to rollover and half had opted for a cash out. Ms. Ghilarducci asked this information to be provided demographically. An interest rate of 7.5% is used for annuitizing.

6. INVESTMENTS. Mr. Miller provided a summary of the Investments Committee Meeting held that morning.

- a. Manager Searches. Mr. Miller advised that the Investment Committee had met the previous afternoon and that morning to interview equity investment managers. He provided a summary of the fund managers selected and the recommended allocations:

STYLE	MANAGER	ALLOCATION
Mid Cap Value	Brandes	\$260
Concentrated Large Cap Value	Merrill Lynch	\$300
	Osprey	\$200
Concentrated Large Cap Growth	Sands	\$250
	Turner	\$250

He noted that once the selection process was finalized, approximately 10% of the PERF fund would be actively managed in Large Cap stocks. Ms. Gerrick and her staff were commended on an excellent job in bringing first rate managers to the Fund. The Investment Committee had been impressed with all the firms they had interviewed. There had been a great deal of discussion about active management versus passive management, and it was considered that active management would add value with the selection of the right firms.

MOTION was duly made and agreed to make the allocations as recommended by the Investment Committee (above).

Proposed by: Steven Miller
Seconded by: Richard Doermer
Votes: 5 for, 0 against, 0 abstentions

Ms. Gerrick noted that the funding schedule would be finalized in due course.

- b. Alternative Investments – Recommendation. At the last Board Meeting, the Board had received a presentation from Lindsay Goldberg & Bessemer L.P., a buy-out firm, and PERF was now considering its first commitment to alternative investments. The Investment Committee recommended making an allocation to them of \$50 million. The third closing would be make on July 31, 2002.

MOTION was duly made and agreed to fund Lindsay Goldberg & Bessemer L.P. with a commitment of \$50 million.

Proposed by: Steven Miller
Seconded by: Jonathan Birge
Votes: 5 for, 0 against, 0 abstentions

- c. Ms. Gerrick advised that SIS would attend the next Board meeting to provide an overview of their current activities.

7. FINANCIAL. Mr. Doermer advised that the Audit and Budget Committee had met on May 8, 2002 and May 31, 2002. The following items had been discussed and the following recommendations made:

- a. Charter and Mission of the Audit and Budget Committee. This Charter sets out the organization of the Committee, membership qualifications, frequency of meetings, and dealings with internal and external auditors.

MOTION duly made and agreed to approve the Charter of the Audit and Budget Committee.

Proposed by: Teresa Ghilarducci
Seconded by: Steven Miller
Votes: 5 for, 0 against, 0 abstentions

- b. Internal Audit Charter. This sets out the function of the Internal Auditor and incorporates the standards and ethics of the Institute of Internal Auditing.

MOTION duly made and agreed to approve the Charter of the Audit and Budget Committee.

Proposed by: Teresa Ghilarducci
Seconded by: Steven Miller
Votes: 5 for, 0 against, 0 abstentions

- c. FY 03 Budget. Mr. Doermer noted that when the draft Budget had been presented on at the meeting on May 8 2002, the Committee members had expressed concern that the figures were larger than they were comfortable with. At that time, the committee had asked the staff to revise their approach and to determine a more appropriate head count for some of the high priority functions of the agency with particular view to the routine implementation of 85% estimated benefit payments and to the Call Center operation. The staff undertook to do this and the Audit and Budget Committee met again on May 31, 2002. In his remarks, Mr. Doermer congratulated the staff on the outstanding work in preparing the budget.
- The proposed (revised) budget calls for an expenditure of \$31.2 million. It contemplates 78 people working in the agency, which represents an increase of eight persons (currently 70 total).
 - The budget increase was approximately \$2.8 million more than the previous year, and a large portion of the figure was attributed to enlargement of investment management and custodial fees as a result of PERF's objective to diversify its total portfolio. The total budget reflected the fact that although total expenditure had increased, when investment and custodial fees were subtracted, the overall budget had actually decreased. Part of this reduction was due to the phasing-out of the backfile conversion project.
 - Overall numbers. In terms of total spending, including the SIRIS project, the budget had diminished from \$36 million to \$32.6 million, from FY02 to FY03. In FY02, there had been a significant amount of spending for the SIRIS project and other related system projects. The investment fees represented the largest cost increase, increasing by \$3.3 million year over year.
 - According to the findings of a Cost Effectiveness Management survey, in terms of comparison with its peers, PERF spends approximately \$25 per member compared to an average for the peer group of about \$55 (for the FY01 period).
 - Head Count. At the end of April 2002, PERF had 70 employees. The budget includes eight additional staff members to be recruited during FY03, which would bring the total PERF fulltime staff to 78 by the end of June 03. Two key priorities were identified: Payment of 85% estimated pension benefits, and the implementation of required legislative changes. The request for additional posts has not been presented to the State Hiring Freeze Committee.

- Consulting Fees. This includes the Navigant data clean up project that will actually come in a little lower for FY02, because the project was started later than anticipated. \$1.1 million has been budgeted for this in FY03.
- Contractual Services. These are mostly for system maintenance.
- The budget was divided into eight key departments within PERF. The figures for the investment department included all external fees.
- Outreach Services. This is a new group formed to liaise with PERF's membership and employers.
- The budget allotted \$122,000 to Outreach Services. This included two employees.

MOTION duly made and carried to approve the FY03 Budget.

Proposed by: Richard Doerner
Seconded by: Nancy Turner
Votes: 5 for, 0 against, 0 abstentions

- d. FY02 Year to date Expenses Update. A year-to-date update of actual expenses in FY02 was provided.
8. EXECUTIVE SESSION. The Board met in Executive Session under IC 5-14-1.5-6.1(b)(2) (strategy with respect to litigation).
9. NEXT MEETING. The next meeting of the Board will be held on Friday, July 12, 2002, at 1:00 p.m.
10. ADJOURNMENT. There being no further business, the meeting was adjourned.